



**Is It Time To Buy A Hybrid Vehicle?**



As the price of gasoline continues to spiral upward, more and more people are considering a hybrid for their next vehicle purchase. The recently enacted Energy Bill of 2005 has new incentives to make a hybrid vehicle purchase even more appealing.

The federal tax incentive for buying a “clean-fuel vehicle” in 2005 is a one-time deduction from adjusted gross income of \$2000. (2006 is the final year of this incentive and the deduction will decrease to \$500.) A vehicle model must be designated as a “clean-fuel vehicle” by the IRS in order for the buyer to take the deduction.

Beginning in 2006, a tax credit of up to \$3,400 will be available to purchasers of certain hybrid-electric and diesel-powered vehicles. The credit will be calculated for each qualifying model based on a complex formula that considers relative fuel economy and expected lifetime fuel savings (compared to vehicles in the same weight class). This calculation favors larger, heavier vehicles, so buying the most fuel efficient model may not result in the largest tax credit.

Also, you must be aware that the credits are reduced to 50% of the original amount three months after 60,000 hybrid vehicles are sold by each manufacturer. Credits are further reduced to 25% of the original amount after an additional six months; and to -0- six months after that. These phase-outs are meant to encourage new companies to enter the hybrid market. Companies such as Toyota and Honda that have been producing hybrids for several years will most likely sell their allotment of 60,000 vehicles in the first six months of 2006.

The IRS has not yet released the exact amount of the credit for each model, but estimates by the nonprofit group the American Council for an Energy Efficient Economy (ACEEE) for vehicles that have qualified are as follows:

<b>Qualifying Current Models</b>		<b>Qualifying Future Models</b>	
Ford Escape Hybrid	\$1950 - \$2600	Chevy Tahoe Hybrid	\$1800
Honda Accord Hybrid	\$650	GMC Yukon Hybrid	\$1800
Honda Civic Hybrid	\$1700 - \$2100	Lexus GS450h Hybrid	\$1300
Honda Insight Hybrid	\$1450	Mariner Hybrid	\$1950
Lexus RX400h Hybrid	\$2200	Nissan Altima Hybrid	\$1300
Toyota Prius Hybrid	\$3150	Toyota Camry Hybrid	\$1300
Toyota Highlander Hybrid	\$2200 - \$2600	Chevy Silverado Hybrid '08	\$900
Chevy Silverado Hybrid	\$250 - \$650	GMC Sierra Hybrid '08	\$900
GMC Sierra Hybrid	\$250 - \$650		

No diesel-powered vehicles currently qualify for the incentives because their emissions do not meet certification levels. The expected introduction of ultra-low sulfur diesel fuel in 2007 may help the diesel-powered models qualify, and thus bring new manufacturers and new 60,000 vehicle allotments into the game at that time.

If you are considering the purchase of a hybrid vehicle solely for economic reasons, you should be sure to take into account all of the costs associated with owning a hybrid vehicle. At this point in time hybrid vehicles have higher sales prices, insurance premiums and repairs after the warranty expires, (especially for replacement battery packs), than their traditional counterparts. These costs can more than offset the savings realized at the gas pump. If you're considering a hybrid vehicle for the environmental benefits, the tax credit is a nice bonus for your noble deed.

## Applicable Federal Rates

May 2006



	Short Term	Mid Term	Long Term
<i>Annual</i>	4.85%	4.84%	5.00%
<i>Semi annual</i>	4.79%	4.78%	4.94%
<i>Quarterly</i>	4.76%	4.75%	4.91%
<i>Monthly</i>	4.74%	4.73%	4.89%
<b>Adjusted AFR for Original Issue Discount (Code Sec. 1288(b))</b>	3.46%	3.66%	4.30%
<b>Code Sec. 382 Adjusted Federal Long Term Rate</b>			4.30%
<i>Long Term Tax exempt rate</i>			4.30%
<b>Low income Housing Credit (Code Sec. 42(b)(2))</b>			
<i>70% present value</i>			8.15%
<i>30% present value</i>			3.49%
<b>Valuation Tables (Code Sec. 7520)</b>			5.60%
<b>Deemed Rate of Return for Transfers to Pooled Income Funds Code Sec. 642(c)(5)</b>			3.80%

## Tax and Employment Records: What Must Be Kept?



### Which Tax Records Can You Throw Out Now?

Maybe it's a good thing that the April tax filing deadline and the urge to spring clean coincide. But before you head to the trash can, make sure you're not disposing of tax records you might need.

In general, you must keep records that support items shown on your individual tax return until the statute of limitations runs out — generally three years from the due date of the return, or the date you filed, whichever is later. In most cases, the IRS can audit your return for three years. You can also file an amended return on Form 1040X during this time period if you missed a deduction, overlooked a credit or misreported your income.

So, does that mean you're safe from an audit after three years? Not necessarily. There are exceptions:

- If the IRS has reason to believe your income was understated by 25 percent or more, the statute of limitations for an audit increases to six years.
- If there is suspicion of fraud or you don't file a tax return at all, there is no time limit for the IRS.

### How Long to Keep Documents?

Like anything involving the IRS or other government agencies, there's no easy answer to that question. But here are some basic guidelines to follow for individuals (guidelines for businesses are in the right-hand chart below):

**Completed tax returns.** Many tax advisers recommend holding onto copies of finished tax returns forever. Why? So you can prove to the IRS that you actually filed. Even if you don't keep the returns indefinitely, you should hang onto them for at least six years after they are due or filed, whichever is later.

**Backup records.** Written evidence that supports figures on your tax return, such as receipts, expense logs, bank notices and sales records, should generally be kept for at least three years.

**Exceptions.** There are some cases when taxpayers get more than the usual three years to file amended returns. You have up to seven years to take deductions for bad debts or worthless securities, so don't toss out related records.

**Real estate records.** Keep these for as long as you own the property, plus three years after you dispose of it and report the transaction on your tax return. Throughout ownership, keep records of the purchase, as well as receipts for home improvements, relevant insurance claims, and documents relating to refinancing. These help prove your adjusted basis in the home, which is needed to figure the taxable gain at the time of sale, or to support calculations for rental property or home office deductions.

**Securities.** To accurately report taxable events involving stocks and bonds, you must maintain detailed records of purchases and sales. These records should include dates, quantities, prices, dividend reinvestment, and investment expenses, such as broker fees. Keep them for as long as you own the investments, plus the statute of limitations on the relevant tax returns.

**Individual Retirement Accounts (IRAs).** The IRS requires you to keep copies of Forms 8606, 5498 and 1099-R until all the money is withdrawn from your IRA accounts. With the introduction of Roth IRAs, it's more important than ever to hold onto all IRA records pertaining to contributions and withdrawals in case you're ever questioned.

If an account is closed, treat IRA records with the same rules as securities. Don't dispose of any ownership documentation until the statute of limitations expires.

**Multi-year issues.** Records that support figures affecting multiple years, such as carryovers of charitable deductions, net operating loss carrybacks or carryforwards or casualty losses, need to be saved until the deductions no longer have effect, plus seven years, per IRS instructions.

### Burden of Proof

The burden of proof, or the responsibility to substantiate items on your tax return, at one time rested entirely on the taxpayer. Since the passage of the Internal Revenue Service Restructuring and Reform Act of 1998, the burden has shifted to the IRS in the event of a courtroom proceeding, but only if you meet the requirements to retain proper records and make them available for inspection. So while the law now takes some heat off taxpayers, it only applies if you diligently maintain records and cooperate with reasonable IRS requests.

**Important:** *Before tossing out financial documents, shred them thoroughly. Identity theft wreaks havoc in victims' lives after information is stolen and used for fraudulent purposes. One way identity thieves obtain confidential data is by rummaging through trash.*

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## Alternative Minimum Tax Discussion



What type of tax was originally designed to deter wealthy taxpayers from avoiding tax and by the year 2010 could affect approximately 30 million U.S. taxpayers?

If you said the Alternative Minimum Tax (or AMT) you would be correct.

AMT was created in 1970 because some high income households were paying little or no tax at all. AMT is paid in addition to your regular income tax. It is calculated by taking the taxable income from page two of your personal income tax return and adding back certain items which the IRS feels could be giving you an unfair tax advantage. The following are the most common items added back:

- Personal exemptions – based on the number of dependents claimed on your personal return
- Medical expenses – there are already limitations on this, but AMT imposes even more
- Interest on second mortgages – if the proceeds were not used to buy, build or improve your home (such those used to purchase a car)
- Standard deduction – if you use the standard deduction as opposed to itemizing
- All taxes, including state and local income tax, sales tax and real estate tax
- Miscellaneous itemized deductions – such as tax preparation fees, unreimbursed employee expenses and investment expenses
- Incentive stock options – generally the difference between the FMV and the price paid for the stock
- Tax exempt interest from specified private activity bonds
- Various credits – allowed for regular tax purposes but not allowed for AMT purposes
- Other less common items for AMT are listed on [IRS Form 6251](#).

Due to the lowering of the regular tax rates in recent years, many more taxpayers are finding themselves subject to AMT. High amounts of ordinary income (wages, Schedule C income, income from pass through entities) may place you in the position of avoiding the AMT in a given year. Large amounts of long-term capital gains and qualified dividends (both currently taxed at the special 15% rate) may cause AMT to apply. Keep in mind that most mortgage interest and all charitable contributions are still fully deductible for purposes of the AMT.

One way to diminish or greatly reduce AMT is by tax planning. This would involve running tax projections prior to the close of the current year and for subsequent years. One common tax planning technique would involve delaying or prepaying state and local income taxes or real estate taxes. In addition, notify your tax adviser before exercising stock options or before taking large long term capital gains. Tax planning may help lessen the burden; unfortunately, in some cases, alternative minimum tax is unavoidable.

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## **SEC's Campos Says He Favors Further Study of Small Firm's Section 404 Implementation**



Securities and Exchange Commissioner Roel Campos said March 30 that exempting smaller companies from Sarbanes-Oxley internal controls requirements would hinder the growth of those companies as well as undermine investor confidence.

However, in what he described as a "multipronged approach," Campos suggested that further study of the issue is warranted--along with more guidance and a continuing delay in implementation of the standards for non-accelerated filers.

Campos made his remarks before the International Organization of Securities Commissions Standing Committee No. 1.

In his address, Campos said he was concerned that adopting the recommendations of an SEC-appointed advisory committee (240 DTR G-9, 12/15/05) that microcap and small-cap companies be at least partially exempted from Sarbanes-Oxley Section 404 requirements "will have the unintended consequences of hurting not only investors but also perhaps the smaller companies themselves."

### **Enhanced Integrity**

Section 404 is intended to enhance the integrity of financial statements by requiring corporate management to include an assessment of its internal controls over financial reporting in the company's annual report, along with an auditor's attestation. The external audit is governed by Auditing Standard 2, issued by the Public Company Accounting Oversight Board. Campos said the rule "without a doubt" had achieved its goal since it went into effect.

Smaller companies have complained to regulators and lawmakers that the costs of implementing the internal controls requirements outweigh any benefits for firms their size. According to figures cited by Campos, audit fees in the first year of Section 404 implementation rose by 68 percent for companies with market caps between \$100 million and \$500 million.

The commissioner, however, also said that he did not believe that 404 had hurt smaller companies' access to public markets. Campos noted data that a record 881 small companies registered to issue new stock shares in 2005. He also said that "Section 404 and Auditing Standard 2 have without a doubt enhanced and improved the integrity of the financial reporting process."

### **Two-Class System**

Campos said he was concerned that adopting the recommendations of the advisory committee would create a "two-class system" under 404. First, he said exemptions would hinder small business growth, because "establishing robust internal control systems actually helps companies discover and correct inefficiencies that will result in significant operational cost savings over the long run."

In addition, he stated, "removing the incentives to create and maintain these systems will make it more difficult for small companies to identify material weaknesses and grow efficiently in a global and highly competitive market."

Second, Campos said he feared an exemption would "severely undermine" investor confidence and trust. "Already," he observed, "smaller companies are perceived as riskier and less transparent investments. Moreover, many of the internal control problems that I have seen as a commissioner have taken place in smaller companies that have less robust compliance and surveillance infrastructures."

He cited one unidentified "major source" as reporting that between 1999 and 2003, nearly 75 percent of all financial restatements were made by companies with annual revenues of less than \$500 million. "Even more troubling," he said, another study indicated small companies are more likely to "confess quietly"--that is, file a restatement without amending previous investor notices. Approximately two-thirds of such refilings in 2005 were made by companies with capitalizations of less than \$75 million, he said.

In calling for further study, Campos said, "We need much more information--cold, hard data" on the costs of implementation versus the benefits for investors. At the same time, the Democratic commissioner observed that "while I am very concerned about these disproportionate costs, I also am troubled by what seems to be a disproportionate focus on costs in the overall 404 dialogue. While these costs are indeed significant, the benefits of Section 404 compliance also are enormous and widely lauded."

### **Multipronged Approach**

Campos put forth a "multipronged approach" for going forward on the issue. First, he called for a pilot program in which a representative sample of small issuers would heed 404 protocols and share their experiences for analysis. He said he hoped such a program would generate objective data, help other companies prepare for first-time implementation, and allow for the development of a "tailored, reasonable, and cost-efficient framework" for auditing the internal controls of smaller companies.

On the last count, he amplified that "one of the biggest complaints that I have heard is that small company internal control audits are being applied with a 'one-size-fits-all' approach. Hopefully, specific small company guidance that is based on concrete data and created with the joint input from the PCAOB, SEC, investors, issuers, and auditors will provide auditors with enough assurance to apply a more tailored and cost-effective approach."

Second, Campos called for more guidance from regulators for smaller companies on topics such as reducing required internal controls testing, auditor reliance on company-level monitoring, and allowing auditors to rely on the work of others. Finally, the commissioner recommended further delaying implementation for non-accelerated filers for up to 18 months while more data is gathered.

### **Conundrum**

Overall, Campos said the 404 implementation decision is one of the most difficult of his tenure, representing a "classic policy conundrum: What should a regulatory agency do when confronted with a law that has had tremendous benefits, but that also has resulted in significant costs?"

He concluded, however, that, "costs--while very important--should never be the sole determinative factor in our policymaking. Rather," he said, "it is our job as regulators to ensure that the very delicate balance between investment growth and protection remains patently fair, but always tipped towards the protection and safeguarding of our investors."

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## Cheap Gas Prices



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<http://autos.msn.com/everyday/gasstations.aspx?zip=&src=Netx>

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